

IPO Underpricing and Long-Term Performance of Newly Listed Indian Companies

¹Ashaz Ahmad Khan, ²Dr Hitesh Keserwani

¹BBA 6 Sem, Amity University Lucknow Campus

²Assistant Professor, Amity Business School, Amity University, Lucknow

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Abstract

Initial Public Offerings (IPOs) represent an important mechanism through which firms raise capital from public markets. A widely documented phenomenon in global financial markets is IPO underpricing, where shares are issued at a price below their market value, resulting in positive first-day returns for investors. This study investigates the extent of IPO underpricing and the long-term performance of selected Indian companies listed after 2010. A sample of fifteen companies across multiple sectors, including technology, financial services, retail, pharmaceuticals, and defence, was analyzed using publicly available market data. IPO underpricing was calculated as the percentage difference between the offer price and the listing-day closing price. Long-term performance was evaluated using one-year and three-year returns relative to the IPO offer price. Descriptive statistical methods, including mean and median comparisons, were employed to evaluate return patterns and distribution characteristics. The findings reveal an average IPO underpricing of 38.03%, indicating substantial listing-day gains in the Indian primary market. The average one-year and three-year returns were 40.69% and 114.84%, respectively. However, median returns were significantly lower, particularly for the three-year period (20.90%), suggesting that long-term gains are concentrated in a small number of high-performing firms. The results indicate that while IPO participation in India can generate meaningful short-term gains, long-term wealth creation is uneven and firm-specific. These findings contribute to the literature on IPO behavior in emerging markets and provide insights for investors, issuers, and policymakers.

1. Introduction

An Initial Public Offering (IPO) refers to the process through which a privately held company offers its shares to the public for the first time in order to raise capital. IPOs play a crucial role in capital markets by enabling firms to access external financing, improve liquidity, and expand ownership structures.

One of the most widely studied phenomena associated with IPOs is **underpricing**, where the offer price of shares is lower than the price at which they begin trading in the secondary market. This leads to immediate gains for investors who are allotted shares at the issue price. IPO underpricing has been documented across both developed and emerging markets and remains a key topic in financial research.

India's IPO market has expanded considerably over the past decade. The post-2010 period has witnessed a significant increase in IPO activity, driven by economic growth, regulatory reforms, and rising participation from retail investors. The listing of technology-focused firms and large public sector enterprises has further increased interest in IPO markets.

Despite the prevalence of listing gains, the long-term performance of IPOs remains uncertain. While some companies experience sustained growth following their public debut, others experience declining share prices after the initial listing period. This raises important questions regarding the sustainability of IPO gains.

This study therefore addresses the following research questions:

1. Do IPOs in India exhibit systematic underpricing?
2. Do IPOs that generate strong listing gains continue to perform well over the long term?

By examining a sample of Indian IPOs listed after 2010, the study provides empirical insights into both short-term and long-term IPO performance.

2. Literature Review

IPO underpricing has been extensively documented in financial literature. Early empirical studies found that newly issued stocks typically experience significant first-day returns. Ibbotson (1975) and Ritter (1984) provided early evidence of strong positive abnormal returns on the first trading day in U.S. IPO markets.

Several theoretical explanations have been proposed to explain this phenomenon. One of the most prominent is the **information asymmetry model**, which suggests that underpricing arises due to differences in information between investors. Rock (1986) argues that informed investors selectively participate in high-quality offerings, leaving uninformed investors exposed to adverse selection risk. As a result, issuers set lower offer prices to encourage broader participation.

Another explanation is provided by **signaling theory**, which suggests that high-quality firms deliberately underprice their IPOs to signal confidence in their future prospects (Welch, 1989). By accepting short-term losses from underpricing, firms aim to establish credibility and attract investors for future capital raising.

Underpricing has also been linked to the **book-building process and demand uncertainty**. Benveniste and Spindt (1989) argue that underwriters may set conservative offer prices to ensure successful subscription and reduce the risk of failed offerings.

Behavioral explanations further suggest that investor sentiment and speculative demand can influence IPO pricing. Periods of strong market optimism often lead to increased demand for new issues and higher listing gains (Ritter, 1998).

Research on IPO performance has also examined long-term outcomes. Ritter (1991) documented evidence that IPOs often underperform market benchmarks over longer horizons. Similarly, Loughran and Ritter (1995) argue that IPOs may initially be overvalued due to investor enthusiasm.

In the Indian context, studies have also reported significant IPO underpricing. Mishra (2010) found that Indian IPOs frequently generate listing gains ranging from 20% to 50%, depending on prevailing market conditions.

However, the evidence on long-term performance remains mixed. While some IPOs deliver sustained growth, others experience price declines after listing. Given the rapid evolution of Indian

capital markets in the past decade, further empirical examination of IPO performance remains important.

3. Methodology

This study adopts a descriptive research design to analyze IPO underpricing and long-term performance among selected Indian companies.

Sample Selection

The sample consists of **15 companies that conducted IPOs after 2010**. These companies represent a range of sectors including technology, financial services, insurance, retail, pharmaceuticals, and defense.

The selected firms include Zomato, Paytm, LIC, SBI Cards, IRCTC, Avenue Supermarts (DMart), Nykaa, Bandhan Bank, ICICI Prudential Life, HDFC Life, Gland Pharma, Mazagon Dock Shipbuilders, Happiest Minds, and CAMS.

Data Sources

Data used in this study were obtained from publicly available financial sources, including:

- National Stock Exchange (NSE)
- Bombay Stock Exchange (BSE)
- Moneycontrol
- IPO prospectuses and financial databases

The following data points were collected:

- IPO offer price
- Listing day closing price
- Approximate market price one year after listing
- Approximate market price three years after listing

Measurement of Returns

IPO underpricing and long-term performance were measured using percentage return calculations.

IPO Underpricing

Underpricing = $(\text{Listing Price} - \text{Offer Price}) / \text{Offer Price} \times 100$

One-Year Return

Return = $(\text{Price after 1 year} - \text{Offer Price}) / \text{Offer Price} \times 100$

Three-Year Return

Return = $(\text{Price after 3 years} - \text{Offer Price}) / \text{Offer Price} \times 100$

Mean and median values were calculated to analyze distribution patterns.

4. Results

The empirical analysis indicates that IPO underpricing is prevalent in the Indian capital market.

The average IPO underpricing among the selected companies was **38.03%**, indicating significant listing gains for investors. However, the degree of underpricing varied substantially across firms.

For example, companies such as **Avenue Supermarts (DMart)**, **IRCTC**, and **Happiest Minds** recorded exceptionally strong listing gains. In contrast, companies such as **Paytm**, **LIC**, and **SBI Cards** listed below their offer prices.

The analysis also examined long-term performance.

The average **one-year return** across the sample was **40.69%**, suggesting that several IPOs continued to perform well after the initial listing period.

The average **three-year return** was **114.84%**, indicating significant long-term appreciation for certain companies.

However, the **median three-year return was only 20.90%**, highlighting the presence of strong outliers.

This difference between mean and median values indicates that the overall average is heavily influenced by a small number of high-performing companies.

5. Discussion

The findings confirm that IPO underpricing remains a persistent feature of the Indian primary market. The average listing gain of approximately 38% is consistent with previous studies documenting significant first-day returns in IPO markets.

However, the variation in underpricing across companies suggests that IPO pricing outcomes are influenced by a combination of market sentiment, firm fundamentals, and investor expectations.

The divergence between mean and median long-term returns provides an important insight into IPO performance. The significantly higher mean return indicates that the distribution of IPO returns is **positively skewed**, meaning that a small number of firms generate disproportionately large gains.

Companies such as DMart and IRCTC contributed significantly to the high average long-term return observed in the dataset.

This suggests that while IPO markets can generate substantial wealth, long-term gains are not evenly distributed across all firms.

For investors, these findings imply that participating in IPOs solely for listing gains may not guarantee long-term success. Instead, careful evaluation of company fundamentals, industry dynamics, and growth prospects remains essential.

6. Contribution of the Study

This study contributes to existing literature in two ways.

First, it provides empirical evidence on IPO performance in the **post-2010 Indian market**, a period characterized by increased retail participation and significant growth in technology-driven IPOs.

Second, the study highlights the importance of examining both **mean and median returns** when evaluating IPO performance. The large divergence between these measures demonstrates that long-term IPO wealth creation is concentrated among a small number of high-performing firms.

7. Conclusion

This study examined IPO underpricing and long-term performance among selected Indian companies listed after 2010.

The findings confirm that IPO underpricing remains a consistent feature of the Indian capital market, with average listing gains exceeding 38%. While many IPOs continue to perform well after listing, long-term performance varies significantly across firms.

The substantial gap between mean and median returns suggests that long-term IPO gains are concentrated in a limited number of companies. As a result, IPO investing outcomes are highly uneven.

These findings highlight the importance of firm-specific analysis when evaluating IPO investments.

Future research may expand the sample size, incorporate benchmark comparisons with market indices, and apply advanced statistical techniques to better understand the determinants of IPO performance in emerging markets.

Data Statement

All data used in this study were obtained from publicly available sources including the National Stock Exchange of India, Bombay Stock Exchange, and financial databases such as Moneycontrol.

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